

The Block Grant Approach Under the Moving to Work Demonstration

Draft report

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Introduction

The Moving to Work Demonstration program (MTW) was established by Section 204 of the 1996 Appropriations Act to allow the U.S. Department of Housing and Urban Development (HUD) and public housing agencies (PHAs) to test new approaches to administering housing assistance programs. The goal of the MTW demonstration is to identify program approaches that: (1) reduce program costs and achieve greater cost effectiveness; (2) provide work incentives to promote resident self-sufficiency; and (3) increase housing choice. In order to provide PHAs with maximum flexibility in developing their demonstration programs, Congress exempted participating PHAs from many of the provisions of the Housing Act of 1937 and associated HUD regulations. Approved exemptions and permitted activities are delineated in the MTW Agreement between HUD and each PHA.

Congress originally authorized up to 30 PHAs to participate in the Moving to Work demonstration, including 7 participants in the separate Jobs Plus Demonstration. To date, 20 PHAs have signed MTW agreements and another seven PHAs are expected to do so in the next three years. Seventeen of the 20 PHAs signed their agreements in late 1998 and 1999, with two PHAs signing agreements in 2000, and one in 2001. Most PHAs began implementing their programs shortly after signing the agreement.

Of the 20 Moving to Work demonstration programs currently in operation, 11 originally focused on promoting resident self-sufficiency, five focused on increasing housing choice for low-income families, three combined self-sufficiency and cost savings initiatives, and one focused primarily on cost savings. Since the MTW legislation pre-dated QHWRA, many of the activities that agencies proposed were eventually allowed or even mandated for all PHAs, such as combining vouchers and certificates. Nevertheless, MTW provided these agencies with a jump-start on implementing programmatic changes, as well as flexibility beyond QHWRA. The only constraints under the program are the limitation of waivers to provisions of the 1937 Act and the statutory requirements that agencies continue to serve the same number and type of residents.

Of the 20 sites now operating MTW programs, eight MTW agencies have the authority to combine the major HUD funding streams (public housing operating subsidies, public housing modernization funds, and tenant-based Section 8 assistance) into a single, authority-wide funding source that can be used flexibly to meet their MTW goals.¹ These PHAs, known as “block grant” agencies, are: Cambridge Housing Authority, Chicago Housing Authority, Delaware State Housing Authority, Housing Authority of Louisville, Pittsburgh Housing Authority, Housing Authority of Portland, Seattle Housing Authority, and Vancouver Housing Authority.² Exhibit 1 groups the 20 PHAs currently participating in MTW by their primary program goals and also indicates the agencies that have been given block grant status.

¹ Several other smaller agencies receive their MTW funding through a “partial grant” or other special funding arrangements, but not the single fund budget with full flexibility as described here.

² In addition, the seven PHAs currently negotiating MTW agreements with HUD (Atlanta Housing Authority, Charlotte Housing Authority, King County Housing Authority, New Haven Housing Authority, Oakland Housing Authority, Philadelphia Housing Authority, and the Housing Authority of the District of Columbia) are likely to enter the demonstration as block grant sites.

Exhibit 1**MTW Participants by Program Goals and Block Grant Status³**

Resident Self-Sufficiency	*Delaware State Housing Authority Greene Metropolitan Housing Authority Housing Authority of the City of High Point Keene Housing Authority Lawrence Housing Authority Lincoln Housing Authority Massachusetts Dept. of Housing and Community Develop. Portage Metropolitan Housing Authority San Antonio Housing Authority San Diego Housing Commission Housing Authority of the County of San Mateo
Housing Choice	*Cambridge Housing Authority *Chicago Housing Authority *Housing Authority of Louisville Minneapolis Public Housing Authority *Housing Authority of the City of Pittsburgh
Self-Sufficiency and Cost Reduction	Housing Authority of Tulare County *Seattle Housing Authority *Vancouver Housing Authority
Cost Reduction	*Housing Authority of Portland

*** Block Grant Site**

Since 1998, Abt Associates Inc. under contract to HUD, has been providing technical assistance to 12⁴ MTW participants, including the six block grant sites: Cambridge, Delaware, Louisville, Portland, Seattle, and Vancouver. This report draws on the experience of these PHAs to discuss the opportunities and challenges presented by the block grant approach. Following a brief introduction to the block grant approach, the report discusses the unique issues involved in creating the funding and reporting arrangements and some of the lessons learned thus far. Included with this report is a summary of how three sites – Seattle, Portland, and Cambridge – have used their funding and regulatory flexibility.

³ Based on the original MTW applications.

⁴ Out of these original twelve, the Stevens Point Housing Authority opted out of MTW.

The Block Grant Approach

In addition to the normal set of waivers provided for which all MTW agencies are eligible, block grant agencies are permitted to combine their public housing and Section 8 funds and use these funds interchangeably for any MTW-related purpose. Although the NOFA that solicited MTW applications discussed this possibility, only agencies that explicitly proposed to combine funding streams were allowed this flexibility initially.

The result of the consolidated funding approach is that public housing and Section 8 funds lose their identity and can be spent on activities normally not funded by the “individual” programs contributing to the block grant. For example, an MTW agency could use capital funds for tenant-based assistance or Section 8 funds for capital purposes. Block grant agencies may also use the new flexibility to support local housing initiatives of their own design, i.e., they need not spend the funds on the public housing or Section 8 programs. The only exception to this flexibility is a “maintenance of effort” provision requiring agencies to serve substantially the same number and type of households as they would as a non-MTW agency.

Largely because of these special funding arrangements, the block grant sites have reporting requirements that are distinct from the other MTW demonstration participants. In lieu of the PHA Annual Plan Process, the block grant sites prepare an Annual MTW Plan and Annual MTW Report. The MTW Plan serves as the comprehensive framework for the PHA’s activities, including resource allocation decisions and program initiatives. The MTW Report compares the PHA’s performance with its Annual Plan.

The MTW Plan and MTW Report also replace major reporting requirements that apply separately to the public housing and Section 8 programs. Specifically, MTW block grant sites are not subject to HUD’s Public Housing Assessment System (PHAS) or Section 8 Management Assessment Program (SEMAP) to date.⁵ These streamlined reporting requirements are designed to help meet the demonstration’s goals of reducing program costs and promoting administrative efficiency. Additionally, block grant agencies do not have to report on obligations and expenditures for modernization funds. Appendix A provides a comprehensive list of the other waivers requested and approved for the original MTW sites.

Because, more than anything, MTW is about local choice (within defined legislative parameters), some MTW agencies requested the block grant structure in their original application while others chose to remain under the traditional funding approach. For example, a number of the MTW agencies proposed narrowly focused programs including several that limited their programs to a small number of units. The block grant approach, therefore, was not appropriate for them. Generally, the agencies that wanted to experiment the most with local choices found that the block grant provided them with the most options. Even within the block grant sites, however, there were “partial” block grant approaches. For instance, the Housing Authority of Louisville proposed to block grant only their capital and Section 8 funds, while remaining with the standard operating fund formula. The result was limited fungibility within the three funding streams.

⁵ However, MTW agencies are subject to the physical inspection component of PHAS under REAC and the resident survey.

Issues Developing the Block Grant Funding Formula

In developing the block grant structure under MTW, the goal was to design a funding formula and process that resembled existing block grant approaches such as the CDBG program, where grantees are assigned one formula-determined amount. HUD would provide few restrictions on the use of the funds, these decisions would be locally documented in an MTW Annual Plan, to be developed in consultation with public groups, and an MTW Annual Report. The final MTW block grant tracked this approach but, as a result of a number of legal and other trade-offs, produced a unique result.

- ***Equity.*** Although the block grant was intended to be as simple as the CDBG program, this goal had to be balanced against both HUD's and the agencies' notions of equity. The simplest means of devising a block grant would be to combine an agency's total funding (operating, modernization, and Section 8) just prior to participation and assign that amount each year thereafter, indexed for inflation. But what if rents increased less than inflation? What if utility rates skyrocketed? What if the rental market tightened and assistance payments rose rapidly? Similarly, from HUD's perspective, what if a PHA, in the year just prior to MTW, was receiving the last of its three-year transition funding for units previously demolished? Would it be fair for that funding to be "locked in?" With the base year approach, an agency is locked into a budget based on conditions and circumstances at the start of MTW.
- ***Simplification of Reporting.*** Agencies also wanted simplification of the current reporting systems. Under the CDBG program, there is only one source of funds and, therefore, only one financial report. Under the MTW block grant, participating agencies would be combining public housing operating, capital, and Section 8 funds. But if they were a true block grant, they would have only one financial report. They would not need to report expenses according to funding source to show, for example, how they spent their public housing funds versus their Section 8 funds.
- ***Simplification of Draw-Downs.*** In addition to calculating and reporting on the funds, agencies wanted to simplify the method in which they would actually receive their funds. Under CDBG, funds are drawn down as needed (as the grantee is ready to make payments). Although this is similar to the public housing modernization program, operating subsidies are currently dispersed to non-MTW agencies in automatic payment schedules throughout the year. The same is true for Section 8 where HUD releases one-twelfth of the agency's annual funding estimated each month, and reconciles any difference at year-end. Based on the issue of fairness, and based on the assumption that PHAs should not get more or less under MTW, it would not seem appropriate for PHAs to receive their entire funding amount at the beginning of the year in one lump sum, as some agencies had requested.
- ***Rewards for risk.*** Although the MTW legislation indicated that funding should not be diminished as a result of an agency's participation, should they be rewarded for taking risks? Should there be incentives, for example, for increasing tenant incomes and, hence, rental income?
- ***Predictability.*** Tied to risk was the agencies' desire for predictability to enable the agencies to make long-term plans. Although Congress makes annual appropriations under the CDBG

program, the formula has remained fairly constant. Should the MTW block grant formula remain fixed? Should it be changed if the formulas for non-MTW agencies change? Under what circumstances? When only the PHA benefits? At the same time, agencies were taking more risk in the mixed-finance development arena, and were becoming more accustomed to trading off these principles. However, agencies also wanted to ensure that their willingness to take risks would not result in diminution of funds.

The result of these trade-offs was a more complicated formula designed to ensure that MTW agency funding would not be diminished because of their participation in MTW.

Block Grant Formula Components

The resulting block grant formula sought to balance these considerations by trading off some of the reporting requirements and formula characteristics with safety nets and the option to return to a traditional funding structure if necessary to keep an agency “whole”. The unintended consequence, however, has in many cases been a duplication of monitoring systems since most of the agencies continue to track their funds under the “old” system in parallel to the block grant system.

The mechanics of the final block grant formula calculated the three funding streams separately, and then combined all of them into the block grant structure.⁶

- ***Public Housing Modernization.*** There were three major changes in how MTW agencies would be treated for the purposes of calculating capital subsidy. First, MTW agencies were allowed to “freeze” their formula characteristics, meaning that the characteristics of a PHA’s stock, for formula purposes, would not change even if the PHA reduced its public housing stock (by converting properties to vouchers, for example) or replaced its stock with better product. Second, MTW agencies were permitted to retain their replacement housing factor funds. Third, although not permitted to draw down their capital funding in a lump sum, MTW agencies were allowed to use a simplified draw-down approach to access funds as they needed them. In particular, an MTW block grant agency only needs to ensure that there is documentation on file.
- ***Section 8.*** Under the block grant, a PHA’s Section 8 subsidy is no longer tied to the level of housing assistance payment (HAP) expense, plus the administrative fees that the PHA would have earned under the non-MTW formulation. A PHA’s Section 8 funding is determined based on the actual, per-unit costs in the year just prior to MTW. This per unit cost is then increased in subsequent years on the Annual Inflation Factor. However, unlike non-MTW agencies, there is no year-end reconciliation. The initial year’s calculation is based on 100% lease-up and the PHA receives that amount, adjusted for inflation, each year thereafter. Additionally, to provide a cushion against adverse changes in market conditions, each of the original block grant agencies was also provided with a two-month Section 8 reserve (equal to

⁶ Unlike under the CDBG program, the MTW block grant agencies must submit three requests for subsidy – one for the Operating Fund, one for the Capital Fund, and one for funding under the Housing Choice Voucher Program. In part, maintaining these three separate requests was a means of satisfying the “fairness” concern, but was also a function of logistical limitations since only a smaller number of all PHAs were receiving their funds in this manner due to the demonstration nature of the program.

two months of program costs for the original agencies) that could be used for any MTW-eligible purpose. MTW block grant agencies are not, however, able to access Section 8 “project reserves” and are not “made whole” through a year-end adjustment. Conversely, the PHAs have the opportunity to keep any savings through more efficient management and shifting of resources.

- **Public Housing Operating Subsidies.** The portion of the block grant that is funded from public housing operating subsidies is calculated, like Section 8, based on per-unit costs for the year just prior to MTW. There are several conditions:
 - To the extent that a PHA was receiving “transitional funding” or “deprogrammed unit” funding, these amounts are calculated separately each year since these are not “normal” costs and should not be folded permanently into the base. Other “add-on” costs, however, were folded into the base year, including FSS funding, unemployment compensation, unit breakthroughs, audit costs, etc.
 - Utility consumption is frozen in the base year, but PHAs are still held harmless for changes in utility rates. This provision provided an incentive to PHAs to reduce consumption, but still insulated them from changes in rates.⁷
 - Rental income, investment, and miscellaneous income were fixed in the base year. By not recalculating these amounts each year, a PHA was provided with an incentive to increase these funding sources. However, a low-occupancy PHA (below 97% adjusted) would need to calculate its subsidy net the impact of low occupancy.
 - A PHA’s unit count (upon which the per-unit subsidy is multiplied) is fixed in the base year. To the extent that the actual number of units decreases in subsequent years – for example, the PHA demolishes an obsolete project – the PHA would have the option of retaining that unit count; or adjusting the unit count and taking a voucher. However, it would also need to demonstrate that it served substantially the same number of families. If it felt it could not serve substantially the same number, it could reduce its unit count accordingly.

The only year-end reconciliations, therefore, would be for changes in unit counts and changes in utility rates.

Implementation Impacts and Issues

Although agencies are still in the early stages of implementing their block grant programs, several issues and lessons have already emerged from their experiences. Depending on local conditions, the structure of the formula itself has had uneven impacts on the agencies. These impacts have caused some agencies to revisit the formula and, in some cases, revert to the traditional formula. In addition, internal management processes have been slow to change due to a variety of factors including: the

⁷ PHAs were also given the option of freezing overall funding in the base year – in essence, providing an incentive to PHAs to reduce both consumption and rate. However, only Chicago has adopted this provision.

“substantiality clause” for families served, the time limited nature of the demonstration and requirements that exclude some Section 8 vouchers from the MTW program.

Formula Issues

At this point in implementation, the formula has presented several challenges for sites, particularly those with tenant-paid utilities. For PHAs with tenant-paid utilities, increases in utility costs drive increases in the utility reimbursement paid to the resident. The result is that rents decrease and utility reimbursements increase. Under PFS, an agency would eventually get back on track as rental income is adjusted in subsequent fiscal years. However, the MTW approach of freezing base-year utility consumption results in a loss of rental income for the agencies as utility costs increase.

Agencies have encountered similar challenges under the Section 8 formula. PHAs are required to assist substantially the same number of households regardless of any increase in per-unit housing assistance payment (HAP) costs. When costs increase more rapidly than the annual adjustment factor, PHAs are faced with a choice of providing participants with a shallower subsidy, drawing funds from reserves or public housing to support the voucher program, or going back to the standard funding formula. At least two PHAs - Portland and Vancouver – have chosen to return to the traditional formula⁸.

Rapidly escalating utility costs also add to the PHAs’ HAP costs, as do changes in the distribution of assisted units when, for example, large numbers of families requiring 2, 3-, and 4-bedroom units transfer into the voucher program. In recent years, Portland has experienced this phenomenon with an increase in families requiring larger size units. Finally, the very success of the self-sufficiency component of MTW may disproportionately increase HAP costs for PHAs that provide more program participants with the opportunity to contribute to a Family Self Sufficiency (FSS) like escrow account. By diverting increases in the families’ incomes into savings accounts, the PHA keeps the family rent artificially low, and requires the PHA to provide a higher level of subsidy assistance. And unlike FSS costs under the standard funding formula, it is the PHA – not HUD – that pays.

On the other hand, agencies have the potential to experience benefits from the block grant approach. For example, if an agency can reduce utility consumption, it can retain all the savings rather than just a portion as QHwRA allows. The same is true for improving income from increased rents or other sources. Since the subsidy is frozen, if rents increase (due to an agency’s self-sufficiency programs, for example), the agencies can keep all rather than a portion of the savings. The ability to keep 100% of the energy and income savings and then to spend the savings across programs is a significant advantage for the block grant agencies.

Management Impacts

Although the block grant formula was partially intended to spur internal management changes related to cost tracking, in practice, many agencies have maintained the same structures as prior to the block grant. Even though there are no longer programmatic reasons to do so, most agencies still track their

⁸ For PHAs that return to the standard funding formula, costs associated with MTW-related changes in subsidy calculations – income exclusions or deductions, alternative subsidy formulas, enhanced participant benefits and/or fund transfers to other programs --will be excluded from calculations of the PHA’s actual per-unit HAP costs. This in turn will limit the “fungibility” of voucher funds.

costs according to the traditional funding programs. In part, this is related to the time-limited nature of the demonstration and the understandable reluctance of the agencies to institute sweeping changes when they may revert to non-MTW status at the end of the demonstration.⁹ Additionally, the “substantiality clause” has limited many of the risks agencies might otherwise take. Finally, many agencies prefer to track income and expenses under parallel processes so they can be assured that they are not being financially harmed by the block grant structure.

PHAs have also found that they are not completely free of administrative burdens or HUD approvals. For example, the inability to add Section 8 special allocation funding into the block grant means that agencies must operate essentially two (or more) Section 8 programs, with all of the attendant accounting and reporting requirements. Also, most MTW agencies continue to track vacancies in order to receive a year-end adjustment for units vacant for reasons beyond the control of the PHA. Agencies could choose to forego this adjustment but most choose to collect the data and receive the adjustment if eligible. Some of these issues arise from the time-limited nature of the demonstration and may perhaps have different impacts if the demonstration was permanent or broader.

An important impact of the block grant approach is that this new flexibility has required agencies to become more aware of their costs and to clearly understand cost drivers. This is particularly important from an asset management perspective, since it is imperative for agencies to understand the cost of operating each property and delivering each voucher. MTW block grant agencies have particularly focused on Section 8 costs since the program no longer functions as a pass-through. Questions any future block grant agencies should be prepared to address include:

- How should financial models and measures change to provide information critical to operating under a block grant?
- What is the total administrative cost to lease a new voucher (not the administrative fee received but the actual “product” cost)?
- What is the agency wide cost to assist a family?
- What is the ratio of agency administrative costs to families assisted?
- How much of the income received under the block grant actually reaches or benefits the property? Or a family?
- When costs are categorized on a property basis in order to track true costs, what is the appropriate allocation of indirect and central service costs?
- If the PHA demolishes units in future years, which of the MTW agreement options is most advantageous financially?

The potential financial impacts of the demonstration have forced many agencies to increase financial modeling to gauge the impacts of local conditions on the block grant structure. Most of the current

⁹ HUD has indicated that extensions beyond five years would be considered and, in fact, several extensions have been approved. Nevertheless, there are no guarantees that the sites will be allowed to continue beyond the current end dates.

agencies have cautioned any new block grant agencies to clearly understand their current financial situation and also to accurately estimate impacts from any external or internal changes on their programs. At the time of agreement execution, most of the agencies focused on the flexibility and overall block grant structure. However, after three years of the demonstration, unintended consequences can force many agencies to rethink their programs and finances.

Block Grant Implementation at Three Sites: Seattle, Portland, Cambridge

Three of the earliest block grant sites -- Seattle Housing Authority, Housing Authority of Portland, and Cambridge Housing Authority -- have now had the opportunity to implement many of their proposed changes as well as experienced some of the unanticipated consequences of the block grant structure. This section provides a brief overview of the programmatic initiatives adopted by these three block grant sites and their experience to date.

Seattle Housing Authority

Seattle Housing Authority's (SHA) "Moving To new Ways" program was designed to test creative ways of providing housing assistance and needed services to low-income residents, while at the same time achieving cost reductions. Since signing its MTW agreement with HUD, Seattle has implemented a range of new policy initiatives as described below.

- ***Rent Policy.*** Under MTW, Seattle has implemented a new rent policy that is designed to meet SHA's goal of helping residents achieve self-sufficiency and reducing costs by removing unnecessary administrative procedures.¹⁰ This policy will transition away from income-based rents and establish three, two-year rent ceilings through which residents progress once they become employed. It also establishes a "resident trust account" into which a portion of the resident's rent is deposited. Residents can use the trust account to pay for job-related costs, educational outlays, emergency medical expenses and so on. Other changes in the policy include limiting rent reviews to every three years for fixed-income households and requiring a minimum 25 percent of gross income rent for recipients of TANF.
- ***Applicant Choice.*** The SHA board adopted a new public housing applicant choice policy that applies to all SHA communities. Applicants for public housing will place themselves on up to two site-specific waiting lists. Those who qualify for an admissions preference may instead choose to be on a waiting list for applicants who have an urgent need to be housed and cannot wait for a development of their choice. SHA will assign applicants from this urgent need waiting list to at least one of every two available units in any building. SHA will fill the remaining units from the site-specific waiting list.¹¹

¹⁰ The rent policy is applicable in all public housing developments, except the Holly Park HOPE VI development and participants in the Jobs Plus program at the Rainier Vista development.

¹¹ Under QHWRRA, housing authorities are now allowed to have site-based waiting lists under which residents can choose up to three developments of their choice.

- **Financing.** SHA reports that when it was seeking funds to finance the acquisition of a 200-unit property, lenders offered them very favorable rates in part because of their larger leveraging capability due to the block grant structure. The lenders felt that the larger pool of fungible funds decreased their risk and allowed them to offer SHA better terms, thereby reducing the acquisition financing costs for SHA.
- **Project Basing.** SHA has simplified its policy to project-base Section 8 subsidies. Under this policy, SHA has set its own criteria to select projects for subsidy, identify eligible owners, define the payment standards to be used for calculating subsidy, and establish a limit on the percentage of Section 8 funding that can be project-based. Under MTW, SHA has allowed staff to project-base up to 25 percent of its Section 8 budget authority.¹²
- **Administrative Changes.** The authority plans to eliminate unnecessary administrative procedures allowing it to reduce costs and achieve greater cost-effectiveness in federal expenditures. Thus far, SHA has identified changes to the existing purchasing policy and is exploring ways to simplify existing HUD procedures that will enable the agency to monitor the use of HUD-determined wage rates in less time-consuming ways. Furthermore, SHA also plans to adopt new public housing and Section 8 program inspection protocols and new energy auditing and utility consumption monitoring protocols that will reduce staff time spent in monitoring and addressing needed repairs and unnecessary utility usage. Finally, the authority also plans to explore ways to streamline the required submissions for demolition/disposition and Mixed Finance approvals so that a threshold can be established to allow certain smaller-sized transactions to be executed without HUD approval.

Housing Authority of Portland

The cornerstone of the Housing Authority of Portland's (HAP) MTW program is cost-reduction. The agency's primary goal is to achieve costs similar to the private sector while still serving the same income levels that they served prior to MTW. The following current and planned cost-saving activities are being undertaken by HAP:

- **Capital Improvements.** Under MTW, HAP has implemented a Capital Improvement Plan for public housing to review and assess needed capital fund repairs and improvements on a five-year basis. This will help control costs and reduce unanticipated, expensive repairs and is expected to achieve cost savings of \$415,000 per year. A portion of the savings from the plan will be used towards HAP's Preventive Maintenance Program for public housing. This program will repair and/or replace five or six items in every housing unit and aims to reduce the number of repeat service calls and the need for more extensive repairs.
- **Income Calculations.** HAP plans to change public housing and Section 8 income calculation policies to reward self-sufficiency and to simplify the process for participants and staff. HAP is requesting that HUD waive its limitations on income calculations and add two new income exclusions: income from any training program recognized by HAP as having employment as an end, and income from adoption or foster care assistance.

¹² HUD has established new regulation that enable housing authorities to project-base 20 percent of their units, with some exceptions.

- **Cost Savings.** HAP will implement selected cost reduction strategies that resulted from its participation in Harvard University's Public Housing Cost Study. These cost reduction strategies include implementation of project-based budgeting to provide a better understanding of costs to each development as well as separate cost estimates. HAP is also seeking HUD approval to revise procurement procedures specifically focused on increasing the informal procurement threshold from \$100,000 to \$250,000 in order to reduce its administrative and advertising costs, particularly for capital improvement projects.

Cambridge Housing Authority

The Cambridge Housing Authority (CHA) has taken the most entrepreneurial approach of the three sites. The CHA has used the flexibility of the block grant to fund initiatives designed to increase the housing choices of its residents and to assist residents in obtaining and retaining employment. The main program elements that have been made possible by the fungibility offered by the block grant system¹³:

- **Project Based Assistance.** CHA has been able to use the fungibility offered by the block grant system to acquire housing units through a Project-Based Leased Housing Program.¹⁴ CHA has simplified the project-basing process by developing its own property eligibility criteria and length of agreement. MTW has also given CHA the ability to determine rent reasonableness and rent adjustment factors, the percentage of the local leased housing program vouchers that can be project-based, lease requirements, HAP terms, waiting list and selection procedures. Additionally, CHA has partnered with the City to implement the program. The Project-Based Leased Housing Program has been a particular success story for CHA and has helped acquire a total of 388 secure units of affordable housing in a very tight rental market.
- **Local Leased Housing .** CHA has implemented a Local Leased Housing Program to preserve existing Section 8 units within the program while new units are added to the program. These provisions allow residents to exceed 40% of their income in rent if they choose with demonstrated ability to meet the rent burden, CHA determination of rent reasonableness and rent adjustment factors, and an extension of the voucher/certificate expiration date beyond the current allowable term. To date, CHA has 1,238 units of housing under lease through its Leased Housing Program.
- **State Voucher Program.** CHA has used federal funding to supplement the Massachusetts Rental Voucher Program to enhance vouchers up to 120 percent of the federal FMR level.
- **Energy Savings Company.** CHA will implement its first self-Energy Savings Company (ESCO) energy performance contract at an elderly building. CHA hopes to retain the savings

¹³ It excludes the Section 8 Moderate Rehabilitation Units, Shelter Plus Care Program, enhanced voucher subsidies at 929 House and Huron Towers, 200 Section 8 Vouchers for persons with disabilities that are related to the CHA's elderly allocation plan, and HOPE VI elderly redevelopment grants for the John F. Kennedy Apartments.

¹⁴ CHA noted in their annual plan that HUD has implemented new regulations for project-based leased housing many of which CHA has already implemented under MTW.

brought about by the ESCo and utilize them for non-energy improvements in its housing developments.¹⁵

- **Modernization Work.** CHA will continue to conduct modernization work in all of its developments. MTW enabled CHA to use its capital and extraordinary maintenance funds to modernize an elderly building now when the demand for those funds is low. By doing the modernization now, the CHA will be prepared with updated and renovated stock for the new wave of elderly seeking assistance.
- **Assisted Living.** CHA redeveloped an existing nursing home into a 71-unit mixed income assisted living development. MTW allowed CHA the flexibility to allocate 39 leased housing vouchers toward the project to make the assisted living facility accessible to low and very-low income elders. Prior to MTW, CHA would not have been able to use those vouchers in advance of HUD issuance of regulations.

CHA also plans to revise its Family Self-Sufficiency program under MTW geared toward helping residents on welfare move to work and aiding working tenants to move to better work. The revised program will better emphasize CHA's internal employment and training programs while partnering with other community organizations to provide any other services current FSS program participant's need.

Conclusion

Although still early in the program, some of the agencies have made substantial progress in implementing change and testing the principles of the block grant approach. Cambridge's Project-Based Leased Housing Program has been a particular success story and has been used to acquire a total of 388 units of affordable housing in a very tight rental market. MTW has also given CHA the ability to determine rent reasonableness and rent adjustment factors, the percentage of the local leased housing program that can be project-based, lease length, waiting list, and selection procedures.

Other options less explored include using Section 8 subsidies to pay for items such as relocation, mobility counseling or any other "soft" activity proposed in the MTW Plan, or using capital dollars to fund a local voucher program. Subject to the unit month limitations and substantiality clause in the MTW agreement, it is possible to think of developing units as voucher assisted and if it were financially attractive, "convert" the units to public housing or vice versa. Additional related internal management and procedural issues proposed include: changes to inspection protocols, procurement, mixed finance, and integrating HOPE VI procedures.

Finally, while much of what the MTW PHAs are doing can be done under QHWRA, and even absent QHWRA (project-based budgeting, decentralization, etc.), this was not the case at the time that most of the block grant agencies undertook MTW. Therefore, these agencies got an early start in thinking through some of the issues that all agencies would face. Additionally it created a special climate for the agencies that helped them make internal changes that they otherwise might not have made.

¹⁵ In their FY 2001 Annual Report, CHA noted that they were not able to move on with the project in FY2001 because it was not financially feasible. In FY2002 they plan to reassess the design and will implement it.

Although the block grant emerged from a simple idea, the inherent trade-offs involved in developing a program that encouraged both simplicity and fairness added complexity to the emerging model. Nevertheless, the agencies that have undertaken this experiment have achieved a level of understanding of their true costs and possibilities for creative alternatives to the traditional funding structures that few agencies have the opportunity to explore. Early in the experience of the block grant, many issues have been raised that would affect future decisions of policy makers considering a widespread application of the block grant structure.

Although general policy conclusions on the block grant approach are difficult to make at this stage of the demonstration, it is clear that the design and implementation of the MTW program has had major impacts on the participating agencies. For all of the block grant agencies, designing and implementing the program has required tremendous staff time and effort as well as underscored the necessity of staff's solid understanding of their program budget and expenditures. Implementing the block grant approach requires strong leadership with far-reaching vision. Additionally, the MTW program has essentially changed the way the three housing authorities featured here view their role as housing providers and members of the local community. In the upcoming years, tracking the organizational, resident and the financial impact of all of the MTW programs will provide crucial insights into the block grant approach and its implications for potential broader applications.

Appendix A: List of Possible MTW Waivers

Item	Comments
Rent Policies	MTW agencies may establish reasonable policies for setting rent, in which they may adopt income-based and flat rents. They may also establish local procedures for ceiling rents and provide new or different income disallowances and/or adjustments to income for the purposes of calculating rent.
Occupancy Policies	MTW agencies may establish new local preferences.
Community Service/Work Requirements	MTW agencies may establish new rules regarding community service or work requirements.
Site-based waiting lists	MTW agencies may establish site-based or development-choice waiting lists.
Leased Housing	MTW agencies may develop new local leased housing program rules, including: <ul style="list-style-type: none"> ▪ Damages ▪ Payment standard ▪ Inspection protocols ▪ Rent policies ▪ Voucher expiration and reissuance terms ▪ Vacancy payments ▪ Security deposits ▪ Lease terms ▪ HAP terms ▪ Content of assistance payment contract and terms, etc.
Project-based Section 8	MTW agencies may be waived from existing project-based Section 8 regulations, wherein they may: <ul style="list-style-type: none"> ▪ Increase the number of project-based units beyond 20% of their allocation ▪ Use alternative procurement methods
Section 8 Homeownership	MTW agencies may structure a local program enabling voucher holders to own a home.
Subsidize other local housing efforts	For example, scattered site acquisition.
Waivers from Capital Fund restrictions re: management improvements, force account, etc.	MTW agencies are not bound by funding obligation deadlines and only show a single line item for detail.
Energy Saving Companies (ESCOs)	MTW agencies can create their own ESCOs and retain any savings.
Pet Policy	MTW agencies have not been successful in waiving this policy.
State/local laws	MTW agencies can request preemptions, such as for local bidding.

Item	Comments
New inspection strategies	MTW agencies may develop new inspection protocols.
Safety and Security	No MTW authorization required.
Project based budgeting and management	No MTW authorization required.
Family Self-Sufficiency	Although QHWRA substantially relieved PHAs of any FSS requirements, MTW provides more flexibility.
Annual/Interim Reviews	MTW agencies can revise the review schedule.
Mixed Population	MTW agencies must still prepare a designated housing plan.
Wage Rate Monitoring	No MTW agencies have yet requested waivers.
Simplification of Development/Redevelopment Process	No waivers have been granted although the process is under discussion.
Energy Auditing	No MTW authorization needed.

Appendix B: Block Grant Funding in the Moving to Work Demonstration

Block Grant Funding in the Moving to Work Demonstration¹⁶

Introduction

The Moving to Work Demonstration program (MTW) was established by Section 204 of the 1996 Appropriations Act to allow the U.S. Department of Housing and Urban Development (HUD) and public housing agencies (PHAs) to test new approaches to administering housing assistance programs. The goal of the MTW demonstration is to identify program approaches that: (1) reduce program costs and achieve greater cost effectiveness; (2) provide work incentives to promote resident self-sufficiency; and (3) increase housing choice. In order to provide PHAs with maximum flexibility in developing their demonstration programs, the Congress exempted participating PHAs from many of the provisions of the Housing Act of 1937 and associated HUD regulations, as delineated in the MTW Agreement between HUD and each PHA.

The Congress authorized up to 30 PHAs to participate in the Moving to Work demonstration. To date, 20 PHAs have signed MTW agreements and another seven PHAs are expected to do so in the next three years. Seventeen of the 20 PHAs signed their agreements in late 1998 and 1999, with two PHAs signing agreements in 2000, and one in 2001. Most PHAs began implementing their programs shortly after signing the agreement.

Of the 20 Moving to Work demonstration programs currently in operation, 11 focus on promoting resident self-sufficiency, five focus on increasing housing choice for low-income families, three combine self-sufficiency and cost savings initiatives, and one focuses purely on cost savings. In addition, eight of the 20 PHAs have the authority to combine the major HUD funding streams (public housing operating subsidies, public housing modernization funds, and tenant-based Section 8 assistance) into a single, authority-wide funding source that can be used flexibly to meet their MTW goals.¹⁷ These PHAs, known as “block grant” sites, are: Cambridge Housing Authority, Chicago Housing Authority, Delaware State Housing Authority, Housing Authority of Louisville, Pittsburgh Housing Authority, Housing Authority of Portland, Seattle Housing Authority, and Vancouver Housing Authority.¹⁸ Exhibit 1 shows the distribution of the 20 PHAs currently participating in MTW by program goals and block grant status.

¹⁶ This document provides a more detailed examination of the block grant funding approach under the MTW Demonstration.

¹⁷ Several other smaller agencies receive their MTW funding through a “partial grant” or other special funding arrangements, but not the single fund budget with full flexibility as described here.

¹⁸ In addition, the seven PHAs currently negotiating MTW agreements with HUD (Atlanta Housing Authority, Charlotte Housing Authority, King County Housing Authority, New Haven Housing Authority, Oakland Housing Authority, Philadelphia Housing Authority, and the Housing Authority of the District of Columbia) are likely to enter the demonstration as block grant sites.

Exhibit 1**MTW Participants by Program Goals and Block Grant Status**

Resident Self-Sufficiency	<i>Delaware State Housing Authority*</i> Greene Metropolitan Housing Authority Housing Authority of the City of High Point Keene Housing Authority Lawrence Housing Authority Lincoln Housing Authority Massachusetts Dept. of Housing and Community Develop. Portage Metropolitan Housing Authority San Antonio Housing Authority San Diego Housing Commission Housing Authority of the County of San Mateo
Housing Choice	<i>Cambridge Housing Authority*</i> <i>Chicago Housing Authority*</i> <i>Housing Authority of Louisville*</i> Minneapolis Public Housing Authority <i>Housing Authority of the City of Pittsburgh*</i>
Self-Sufficiency and Cost Reduction	Housing Authority of Tulare County <i>Seattle Housing Authority*</i> <i>Vancouver Housing Authority*</i>
Cost Reduction	<i>Housing Authority of Portland*</i>

*** Block Grant Site**

The block grant sites participate in the MTW demonstration under somewhat different terms than the other participants. The eight block grant sites vary in the particulars of their MTW agreements, but follow a basic funding model in which the amount of public housing operating subsidy and tenant-based assistance is established by using a base year funding allocation and an annual adjustment factor (see the funding formula section for more details on the funding calculations). The block grant does not alter the formula for capital funds. The block grant PHAs enjoy a great deal of flexibility in the use of these funds which they can target to such purposes as acquiring, developing or rehabilitating housing or commercial facilities in support of housing; providing housing or employment-related services; providing tenant-based or project-based rental assistance; and preserving or acquiring units currently occupied by low-income people.

In addition to following a different funding model, the block grant sites have reporting requirements that are distinct from the other MTW demonstration participants. In lieu of the PHA Annual Plan Process, the block grant sites are required to submit an Annual MTW Plan and Annual MTW Report.

The MTW Plan serves as the comprehensive framework for the PHA's activities, including resource allocation decisions and program initiatives. The MTW Report compares the PHA's performance with its Annual Plan. The MTW Plan and MTW Report also replace major reporting requirements that apply to the public housing and Section 8 programs. Specifically, MTW block grant sites are not subject to HUD's Public Housing Assessment System (PHAS) or Section 8 Management Assessment Program (SEMAP) to date.¹⁹ These streamlined reporting requirements were designed to help meet the demonstration's goals of reducing program costs and promoting administrative efficiency.

Since 1998, Abt Associates Inc., under contract to HUD, has been providing technical assistance to 12²⁰ MTW participants, including the following block grant sites: Cambridge, Delaware, Louisville, Portland, Seattle, and Vancouver. This case study draws upon the experience of these PHAs to discuss the opportunities and challenges presented by the block grant approach. The report focuses on three sites – Seattle, Portland, and Cambridge – that have implemented MTW programs and are currently experimenting with their funding flexibility. Following a brief introduction to these sites, the report discusses block grant funding streams and formulae, PHAs' use of funding flexibility, and internal agency changes that have resulted from the block grant approach. The report concludes by summarizing the lessons learned to date from the MTW demonstration with respect to the block granting of funds and the implications of the MTW experience for housing policy.

Overview of Block Grant Sites

This section provides a brief introduction to the experiences of three block grant sites in the MTW demonstration – Seattle Housing Authority, Housing Authority of Portland, and Cambridge Housing Authority. Among the MTW sites that Abt Associates has worked with over the past three years, these three PHAs are the furthest along in implementing their MTW programs and experimenting with the funding flexibility created by the block grant approach.

The three housing authorities premised their MTW programs on the notion that consolidation of the funding sources and the removal of administratively burdensome procedures should increase efficiency by giving PHAs incentives to cut costs and retain the savings for other housing programs. In addition, the increased flexibility from the single fund budget would allow housing authorities to take greater advantage of partnership opportunities.

Seattle Housing Authority

Seattle Housing Authority's (SHA) "Moving To new Ways" program was designed to test creative ways of providing housing assistance and needed services to low-income residents, while at the same time achieving a reduction in cost. The following details some of the MTW program elements:

- Seattle has implemented a **new rent policy** that is designed to meet SHA's goal of helping residents achieve self-sufficiency and reducing costs by removing unnecessary administrative

¹⁹ However, MTW agencies are subject to the physical inspection component of PHAS under REAC and the resident survey.

²⁰ Out of these original twelve, the Stevens Point Housing Authority opted out of MTW.

procedures.²¹ This new policy will move away from income-based rents and establish three, two-year rent ceilings through which residents progress once they become employed. It also establishes a “resident trust account” into which a portion of the resident’s rent is deposited. Residents can use the trust account to pay for job-related costs, educational outlays, emergency medical expenses and so on. Other changes in the policy include rent reviews every three years for fixed-income households and a minimum 25 percent of gross income rent for recipients of TANF.

- The SHA board adopted a **new public housing applicant choice policy** that applies to all SHA communities. Applicants for public housing will place themselves on up to two site-specific waiting lists. Those who qualify for an admissions preference may instead choose to be on a waiting list for applicants who have an urgent need to be housed and cannot wait for a development of their choice. SHA will assign applicants from this urgent need waiting list to at least one of every two available units in any building. SHA fills the remaining units from the site-specific waiting list.²²
- SHA reports that when it was seeking funds to **finance the acquisition** of a 200-unit property, lenders offered them very favorable rates in part because of their larger leveraging capability due to the block grant structure. The lenders felt that the larger pool of fungible funds decreased their risk and allowed them to offer SHA better terms, thereby reducing the acquisition financing costs for SHA.
- SHA has simplified its policy to **project-base Section 8 subsidies**. Under this policy, SHA has set its own criteria to select projects for subsidy, identify eligible owners, define the payment standards to be used for calculating subsidy, and establish a limit on the percentage of Section 8 funding that can be project-based. Under MTW, SHA has allowed staff to project-base up to 25 percent of its Section 8 budget authority.²³
- The authority plans to eliminate **unnecessary administrative procedures** allowing to reduce costs and achieve greater cost-effectiveness in federal expenditures. Thus far, SHA has identified changes to the existing purchasing policy and is exploring ways to simplify existing HUD procedures that will enable the agency to monitor the use of HUD-determined wage rates in less time-consuming ways. Furthermore, SHA also plans to adopt new public housing and Section 8 program inspection protocols and new energy auditing and utility consumption monitoring protocols that will reduce staff time spent in monitoring and addressing needed repairs and unnecessary utility usage. Finally, the authority also plans to explore ways to streamline the required submissions for demolition/disposition and Mixed Finance approvals so that a threshold can be established to allow certain smaller-sized transactions to be executed without HUD approval.

²¹ The rent policy is applicable in all public housing developments, except the Holly Park HOPE VI development and participants in the Jobs Plus program at the Rainier Vista development.

²² Under QHWRA, housing authorities are now allowed to have site-based waiting lists under which residents can choose up to three developments of their choice.

²³ HUD has established new regulation that enable housing authorities to project-base 20 percent of their units, with some exceptions.

Housing Authority of Portland

The cornerstone of the Housing Authority of Portland's (HAP) MTW program is cost-reduction. The agency's primary goal is to achieve costs similar to the private sector while still serving the same income levels that they served prior to MTW. The following details HAP's current and planned cost-saving activities:

- Under MTW, HAP has implemented a **Capital Improvement Plan** for public housing to review and assess needed capital fund repairs and improvements on a five-year basis. This will help control costs and reduce unanticipated, expensive repairs and is expected to achieve cost savings of \$415,000 per year. A portion of the savings from the plan will be used towards HAP's **Preventive Maintenance Program** for public housing. This program will repair and/or replace five or six items in every housing unit and aims to reduce the number of repeat service calls and the need for more extensive repairs.
- HAP plans to **change public housing and Section 8 income calculation policies** to reward self-sufficiency and to simplify the process for participants and staff. HAP is requesting that HUD waive its limitations on income calculations and add two new income exclusions: income from any training program recognized by HAP as having employment as an end, and income from adoption or foster care assistance.
- HAP will implement selected **cost reduction strategies** that resulted from its participation in Harvard University's Public Housing Cost Study. These cost reduction strategies include the following:
 - Changing procedures and policies to allow its public housing sites to increase the purchasing of materials. This will enable HAP to provide its residents with quicker service and will reduce administrative costs in the purchasing section.
 - Implementing Project-Based Budgeting to provide a separate costs and revenue estimates of the different developments and provide better understanding of costs at each development. This will help lower administrative costs and response times.
 - Establishing new Work Order Systems to reduce the cost that HAP incurs in managing its inventory, provide better information on maintenance issues, improve communication at the sites and help answer resident concerns.
 - Seek HUD approval to revise procurement procedures specifically focused on increasing the informal procurement threshold from \$100,000 to \$250,000 in order to reduce its administrative and advertising costs, particularly for capital improvement projects.

HAP also plans to create the following programs to achieve its goal of promoting resident self-sufficiency and increasing housing choice:

- HAP plans to initiate a **Section 8 Homeownership** program as its key self-sufficiency initiative.

- HAP plans to **review and revise the current preferences and priorities for admission** to public housing and hopes it will then be able to provide additional access and housing choices to various individuals experiencing disabilities.

Cambridge Housing Authority

Cambridge has taken the most entrepreneurial approach among the three sites. The CHA has used the flexibility of the block grant to fund initiatives designed to increase the housing choices of its residents and to assist residents in obtaining and retaining employment. The following describes the main program elements that have been made possible by the fungibility offered by the block grant system²⁴:

- CHA has been able to use the fungibility offered by the block grant system to acquire housing units through a **Project-Based Leased Housing Program**.²⁵ CHA has simplified the project-basing process by developing its own property eligibility criteria and length of agreement. MTW has also given CHA the ability to determine rent reasonableness and rent adjustment factors, the percentage of the local leased housing program that can be project-based, lease length and waiting list and selection procedures. Additionally, CHA has partnered with the City to implement the program.

The Project-Based Leased Housing Program has been a particular success story for CHA and has helped acquire a total of 388 secure units of affordable housing in a very tight rental market.

- CHA has implemented a **Local Leased Housing Program** to preserve existing Section 8 units within the program while new units are added to the program. These provisions allow residents to exceed 40% of their income in rent if they choose with demonstrated ability to meet the rent burden, CHA determination of rent reasonableness and rent adjustment factors, and an extension of the voucher/certificate expiration date beyond the current allowable term.

To date, CHA has 1,238 units of housing under lease through its Leased Housing Program.

- CHA has used federal funding to **supplement the Massachusetts Rental Voucher Program** to enhance vouchers up to 120 percent of the federal FMR level.
- CHA will implement its first **self-Energy Savings Company (ESCO)** energy performance contract at an elderly building. CHA hopes to retain the savings brought about by the ESCO and utilize them for non-energy improvements in its housing developments.²⁶

²⁴ It excludes the Section 8 Moderate Rehabilitation Units, Shelter Plus Care Program, enhanced voucher subsidies at 929 House and Huron Towers, 200 Section 8 Vouchers for persons with disabilities that are related to the CHA's elderly allocation plan, and Hope VI elderly redevelopment grants for the John F. Kennedy Apartments.

²⁵ CHA noted in their annual plan that HUD has implemented new regulations for project-based leased housing many of which CHA has already implemented under MTW.

²⁶ In their FY 2001 Annual Report, CHA noted that they were not able to move on with the project in FY2001 because it was not financially feasible. In FY2002 they plan to reassess the design and will implement it.

- CHA will continue to conduct **modernization** work in all of its developments. MTW enabled CHA to use its capital and extraordinary maintenance funds to modernize an elderly building now when the demand for those funds low. By doing the modernization now, the CHA will be prepared with updated and renovated stock for the new wave of elderly seeking assistance.
- CHA **redeveloped** an existing nursing home into a 71-unit mixed income development. MTW allowed CHA the flexibility to allocate 39 leased housing certificates toward the project to make the assisted living facility accessible to low and very-low income elders. Prior to MTW, CHA would not have been able to utilize those certificates in advance of HUD issuance of regulations.

CHA also plans to revise its **Family Self-Sufficiency program** under MTW geared toward helping residents on welfare to move to work and aiding working tenants move to better work. The revised program will better emphasize CHA's internal employment and training programs while partnering with other community organizations to provide any other services that current FSS program participants need.

The Block Grant Funding Approach

Critical to achieving these programmatic goals, many of the larger MTW agencies premised their programs on a block grant funding approach. Due to the evolutionary nature of public housing funding regulations, most of the rules governing the sources and uses of funds have become increasingly complex and rigid.²⁷ Most PHAs follow separate requisitioning and reporting requirements for capital funds, operating funds, Section 8 funds, as well as other grant programs. Since each of these programs was designed in its own time and for its own purpose, there is not a consolidated approach to all of public housing funding. Consequently, PHAs spend a significant amount of administrative time managing and reporting on the separate funds. Additionally, they have been sheltered from many of the private sector real estate risks that could encourage more innovation and efficiency coupled with increased flexibility.

And although HUD's funding formulae have, for the most part, sheltered PHAs from many of the risks associated with real estate management in the private sector, they have arguably stifled the innovation and increased efficiency that are best fostered by necessity.

The block grant MTW agencies viewed simplifying both the requisitioning and use of these funds as crucial to increasing agency efficiency and testing regulatory boundaries. The idea of combining all of an agency's funds into one source with multiple uses also complements the private sector model that many federal and local agencies have encouraged. In addition, with HUD's increased emphasis on mixed-finance development, PHAs have been given more freedom to combine public and non-public funds. The public funds have traditionally come through multiple programs each with their own staff, regulations, and monitoring. Therefore, in practice, the sourcing of "public" funds can be as complicated as the sourcing of other leveraged funds. Consolidating the public housing funding streams has the potential to greatly increase the efficiency of mixed-finance development.

²⁷ For a complete history of the PFS formula, please see Appendix C of the Public Housing Operating Cost Study: Discussion of Research Issues and Initial Recommendations for Review, April 2001.

Although each of the agencies has focused on different programmatic elements of MTW, all rely on the same basic block grant funding principles. These principles share the following elements:

- The housing authority establishes a single fund budget combining Section 8, Capital and operating funds. (HOPE VI funds, PHDEG funds, and special allocation of vouchers are excluded).
- Combined funds may be used for any activity to support the MTW initiatives as described in the MTW Agreement and approved in the Statement of Authorizations.
- Program specific funding regulations are suspended to the extent they are inconsistent with the MTW Agreement.
- Instead of a typical PHA budget for each program area, the MTW agency prepares a consolidated sources and uses budget. MTW eliminates most of the program specific budget forms; others are modified to reduce paperwork and support the logistics of providing the PHA with funds.
- The only restrictions on fund use are those established in OMB Circular A-87.
- An annual audit is required per OMB Circular A-133.

The result of this consolidated approach is that public housing funds lose their identity and can be spent on activities normally not funded by the “individual” programs contributing to the block grant. For example, an MTW agency can use “old” capital funds for tenant-based assistance, or the agency can apply Section 8 funds to a local housing program approved as part of the MTW program. The only exceptions to this flexibility relate to the population served by the agency. Agencies must continue to serve substantially the same population as they would as a non-MTW agency. Within these parameters, use of the block funds is limited only by programmatic imagination.

Building the Block Grant: Funding Streams and Formulas

Since the block grant is based on combining operating, capital, and Section 8 funds, HUD used these funding streams as the basis for establishing the block grant amount. After the MTW agreement was executed, each agency established a funding base year for their operating and Section 8 programs. Subsequently, the agency carries forward the base year and adjusts for inflation. The operating subsidy calculations under MTW also permit certain add-ons. The capital fund formula remains unchanged under MTW, although it is combined into the annual block grant.

With the base year approach, an agency is locked into a budget based on conditions and circumstances at the start of MTW. Implicit to the success of this arrangement is price or cost stability. The PHA and HUD are both assuming that costs incurred by the housing authority will remain relatively stable over the term of the demonstration.

In exchange for taking on this risk, block grant agencies receive significant flexibility in the use of their funds as well as the ability to retain 100% of certain energy-related savings and increases in income from rent or other sources. The agency also receives a two-month up-front reserve of Section 8 that acts as a “cushion” during the transition to the block grant.

Comparison of MTW Block Grant Funding and Non-MTW Funding: Operating Fund

In traditional public housing, an agency's operating subsidy is calculated through the performance funding system (PFS). While the PHA creates its own operating budget, the subsidy is not directly tied to the expenses in the budget. The subsidy "plugs" into the budget but the amount of the subsidy available to the agency is governed by the PFS formula calculations not by the budgeted expenses. A PHA that spends outside the boundary set by income and subsidy must dip into the operating reserves to make ends meet for that fiscal year. Therefore, the PFS formula represents a balance between actual conditions and the approximation of costs imposed by the formula method. The formula requires significant record keeping by the PHA, detailed tracking of units, documentation for add-ons, deprogrammed unit costs, etc.

The following table describes the derivation of individual components of the MTW operating formula. Note that the current Operating Fund rules were not in place at the time the initial MTW block grant agencies signed their MTW agreements. For simplicity, the MTW Formula is compared to the current Operating Fund formula.

The components of the operating formula are further described in Appendix B. The Operating Budgets and PFS Forms used in calculations and submissions are listed in Appendix C.

PFS Formula Component	MTW Block Grant Formula Approach	Comment
AEL ²⁸ from prior year or % of FHAEL	<p>Establish base year and compute subsidy @ 97% occupancy</p> <p>To determine AEL take base year data and:</p> <ul style="list-style-type: none"> • Enter total operating subsidy after add-ons but before year-end adjustments and pro-ration • Subtract (if any): <ul style="list-style-type: none"> • costs attributable to deprogrammed units • phase-down subsidy for demolished units • 20% subsidy for long-term vacant units • Divide by UMAs and convert total subsidy to PUM • Subtract allowable expense level for utilities • = non-utility subsidy for the base year 	<p>The MTW formula establishes the base year as the year prior to the initial year in MTW. The formula then backs out selected add-ons and utilities to determine the non-utility base year subsidy.</p> <p>IMPACT: base year subsidy is slightly higher because pro-ration is not applied and certain add-ons are retained. Year-end adjustments that added or substituted subsidy are not included.</p> <p>UMA's are frozen at the initial year level and <u>cannot</u> exceed that number. If an agency has recently lost units and did not receive Section 8 replacement vouchers it can add UMAs during the demonstration up to the number of units it had under the ACC as of August 1996.</p> <p>IMPACT: Appears to cap funding stream. That's true for operating funds; but under the block grant the agency is receiving funds for the vouchers through the Section 8 funding stream. Because both Section 8 and operating subsidies are part of the block grant, agencies should estimate the subsidy value of a hard unit vs. voucher. This can help in determining which choice to make if replacement units or vouchers are part of the agency's predevelopment activity.</p>

²⁸ For further discussion on the calculation of the Allowable Expense Level (AEL), see Appendix B.

PFS Formula Component	MTW Block Grant Formula Approach	Comment
X 1.005 (simplified delta)	X 1.005 (simplified delta)	Same as PFS
X formula delta	Not applic able	Base year unit and size characteristics are frozen.
X annual inflation factor	X annual inflation factor	Same as PFS
+ Allowable Utility Consumption/Expense Level (AUCL)	N/A .	See below for utilities.
+ Costs associated with any deprogrammed units	N/A	See below. Deprogrammed units are treated as an Add-on under MTW.
= Total Allowable Expenses	= Revised non-utility PUM	At this point MTW has yet to add utilities.
No corresponding step in PFS.	+ utility consumption from the base year X current prices and divide by UMAs	Options: Under MTW an agency may opt to freeze utility consumption at the base year level and take a year end adjustment for any changes in rates. Risk to agency is limited to consumption increases. Savings are shared with HUD per the existing operating fund regulations (75/25, PHA/HUD). An MTW agency may also opt to freeze <u>both consumption and cost taking full risk</u> , keeping all the savings. Energy Service Agreements for non-HUD financed conservation measures allow the agency to keep 100% of any savings. See below for issues on utilities.
- Less income generated by the PHA = Operating Subsidy before Add-ons	 = Subsidy eligibility before pro-ration and add-ons.	Dwelling rental income and other income are fixed in the base year. IMPACT: To the advantage of the PHA should income increase. In effect PHA retains 100% of any such increase. For dwelling rental income this is a better deal than the current operating fund rule that equally splits rental income increases with HUD. BUT , if rental income <u>declines</u> (and

PFS Formula Component	MTW Block Grant Formula Approach	Comment
		it has in instances where the PHA has tenant paid utilities and utility allowances, see below) this can hurt the PHA since the MTW formula has no mechanism for a PHA to recoup these costs.
+ Add-ons and adjustments	g+ Add-ons per MTW restrictions	<p>Under MTW many add-ons are fixed in the base year except for:</p> <ul style="list-style-type: none"> • Units approved for demolition or disposition and removed from inventory. • For demo/dispo PHA has the option to: <ol style="list-style-type: none"> 1. Take phase-down subsidy, not receive any Section 8 vouchers and reduce UMAs; 2. Apply for Section 8 replacement vouchers and once received phase-down subsidy terminates and UMAs are reduced; or 3. Retain UMAs by serving same number of families and not receive either phase-down subsidy or Section 8 Vouchers.
		<p>Key financial questions in considering the Demo/dispo options: annual value of hard unit subsidy Vs Section 8 voucher, effect of UMA reduction on overall subsidy calculations as demonstration progresses.</p> <ul style="list-style-type: none"> • Other add-ons: The PHA may also request an add-on for vacancies beyond the control of the PHA, long term vacancies, and deprogrammed units

PFS Formula Component	MTW Block Grant Formula Approach	Comment
Apply subsidy pro-ration	Apply subsidy pro-ration	Same
= Total Operating Subsidy	= Subsidy amount for initial year in MTW	Now we're getting somewhere!
	<p><u>In subsequent years:</u></p> <p>Take the revised non-utility PUM from the prior MTW year X 1.005 (simplified delta) X AEL inflation factor + utility consumption from the base year X current prices and divide by UMAs + any applicable MTW add-ons less any subsidy pro-ration = Subsidy amount for subsequent years in MTW</p>	<p>After the initial year transition to MTW the calculation is much easier: only one form is needed. The other PFS calculation worksheets for occupancy, utilities, long delta, etc are no longer required. This is a major simplification in the administrative process required to obtain operating subsidy.</p> <p>However, some flexibility in responding to changing financial circumstance may be lost since dwelling rental and some other key components are fixed to the base year.</p>

Comparison of MTW Funding and Non-MTW Funding: Section 8

Like the public housing operating subsidy, the funding formula used to calculate the Section 8 subsidy for the MTW block grant sites is based on the application of an annual adjustment factor to subsidy levels established at the execution of the MTW Agreement. The subsidy that the PHA receives is no longer tied to the level of housing assistance payment (HAP) expense, or the administrative fees that the PHA would have earned under the non-MTW formulation. The PHA is, however expected to continue to serve the same number of participants as served prior to MTW.

The following table compares the calculation and disbursement of MTW Section 8 funding to that of Section 8 funding provided to non-MTW agencies.

Housing Choice Voucher Funding	MTW Block Grant Funding
Initial Funding	
<ul style="list-style-type: none"> HUD calculates the Annual Budget Authority (ABA) based on actual per unit costs from the prior year, multiplied by the annual adjustment factor (AAF) 	<ul style="list-style-type: none"> No change.
Project Reserve	
<ul style="list-style-type: none"> HUD provides funding for 1 month in a HUD-held project reserve. 	<ul style="list-style-type: none"> HUD provides funding for a 2-month PHA-held project reserve.
<ul style="list-style-type: none"> If PHA expenditures exceed ABA, the excess is charged to the reserve. 	<ul style="list-style-type: none"> No change.
<ul style="list-style-type: none"> If the expenditure excess results from allowable program expenditures. HUD replenishes reserves when funding is available. 	<ul style="list-style-type: none"> No replenishment of project reserves.
Funding Draw-Down	
<ul style="list-style-type: none"> PHA prepares the budget to estimate required annual funding. 	<ul style="list-style-type: none"> PHA received the entire ABA – no budget is required.
Year-End Settlement	
<ul style="list-style-type: none"> PHA calculates the Housing Assistance Payment (HAP) paid, administrative fees earned, hard-to-house fees paid, and audit costs. 	<ul style="list-style-type: none"> No year-end settlement.
<ul style="list-style-type: none"> If the PHA has been overpaid (drawn-down exceeds expenses), the PHA returns funds to HUD 	<ul style="list-style-type: none"> If draw-down exceeds expenses, the PHA retains the excess.
<ul style="list-style-type: none"> If the PHA has been underpaid, HUD pays the PHA the difference. 	<ul style="list-style-type: none"> If expenses exceed draw-down, PHA pays.
Renewal Funding	
<ul style="list-style-type: none"> HUD calculates ABA based on actual per-unit cost from prior year, times AAF. 	<ul style="list-style-type: none"> HUD calculates ABA based on prior year award, multiplied by AAF.

As is evident, the MTW block grant is much simpler to calculate and monitor on an annual basis. However, the risks for the agency increase since they are not “made whole” through a year-end

adjustment and replenishment of reserves. Conversely, the PHAs have the opportunity to keep any savings through more efficient management and shifting of resources.

Block Grant Policy Impacts and Issues

Although the original intent of creating the block grant structure was to encourage more flexibility and simplicity, arriving at the formula and managing the agency impacts has not immediately solved these issues. The impacts have been difficult to measure due to the pace of implementation and scale. However, early in the experience of the block grant, many issues have been raised that would affect future decisions of policy makers considering a widespread application of the block grant structure.

Once the base year has been established, the immediate benefits of the block grant structure on an agency has been simplification of paperwork. Only the HUD-52723 is submitted showing the adjustments for inflation from the base year in the MTW Annual Plan. This is a substantial improvement over the current requirements.

Additionally, some agencies have used block grant flexibility to increase their stock. This has been particularly true around choices related to demolishing units. The MTW agreement gives PHAs three options when units are being demolished:

- they can take phase-down subsidy, forego any Section 8 vouchers and reduce UMAs;
- apply for Section 8 replacement vouchers followed by termination of phase-down subsidy resulting in reduced UMAs; or
- they can retain UMAs by serving the same number of families and not receive either phase-down subsidy or Section 8 Vouchers.

These options have required agencies to rethink “hard unit” choices and determine which long-term budgetary decisions will allow them to serve the greatest numbers of families even if their stock changes substantially.

More problematic issues for agencies include the realities of trading off risk and flexibility with the corresponding risk that agencies assume under the block grant structure. For example, while the block grant is intended partially to encourage agencies to use their resources locally, the MTW formula does not fundamentally alter the PFS relationship to actual costs. Therefore, the block grant as construed under MTW does not immediately require more efficient management for cost reductions or tracking. Because the formula is fixed to the base year spending adjusted for inflation, savings can be more readily converted into sustainable increases in units or families assisted. For any block grant agency, the components of cost in the agency (property-based, central services, and overhead) should all be reviewed for savings and reallocation.

The block grant structure also does not inherently require internal management changes. Most agencies have traditional structures based on the funding formulas. Therefore, agencies generally have a Section 8 department, public housing department, capital department, etc. Few agencies have dramatically altered the internal organization or processes even though there are no longer programmatic reasons to do so. Under the block grant, the administrative “walls” of separate

programs no longer limit how the savings can be applied. While there is no external requirement to track and reduce indirect costs differently under the block grant, part of the goal of MTW was to motivate PHAs to view these costs differently with the added flexibility. However, since the program is a time-limited demonstration, many agencies are reticent to make too many internal changes since presumably they will revert to non-MTW status in the future.

PHAs have also found that they are not completely free of administrative burdens or HUD approvals. For example, the inability to add Section 8 special allocation funding into the block grant is a significant burden on the block grant agencies, requiring the operation of essentially two (or more) programs, with all of the attendant accounting and reporting requirements. Also, MTW agencies may receive a year-end adjustment for units vacant for reasons beyond the control of the PHA. Agencies could choose to forego this and perform only limited tracking of the reasons for vacancy, but most choose to receive the adjustment if eligible. Some of these issues again arise from the time-limited nature of the demonstration, and may perhaps have different impacts if the demonstration was permanent or broader.

Other block grant issues have related to utility costs. Under MTW, PHAs have the choice of freezing utility consumption in the base year or freezing both consumption and price in the base year. In the first instance rates are adjusted in subsequent demonstration years to the rates in effect at the time of budget submission so PHAs are held-harmless from rate changes. Under this option, PHAs can keep some of the savings from any reduction in consumption. If both price and consumption are frozen the PHA can keep 100% of any savings. PHAs with project-paid utilities benefit the most from this approach.

However, for PHAs with tenant-paid utilities, increases in utility costs drive increases in the utility reimbursement paid to the resident. The result is that rents decrease and utility reimbursements increase. Under PFS, an agency would eventually get back on track as rental income is adjusted in subsequent fiscal years. However, the MTW approach of freezing base-year consumption but using current year pricing has no impact because it is rental income (rather than consumption) that is affected and rental income is fixed in the base year. The result for PHA's with tenant-paid utilities is a loss of rental income as utility costs increase.

For block grant PHAs (and MTW PHAs with partial grants calculated under the MTW formula), the utility issue and other program cost issues have been particularly troublesome under the Section 8 program. Under the MTW formula, the PHA is required to assist substantially the same number of households regardless of the increase in their per-unit HAP costs. When costs increase more rapidly than the AAF, PHAs have been faced with a choice between providing participants with a shallower subsidy, drawing funds from public housing to support the voucher program, or going back to the standard funding formula – a route that at least two PHAs (Portland and Vancouver) have taken.²⁹ Several PHAs have reported that there seems to be a substantial lag between increases in market rents – and in the PHAs HAP payments – and corresponding increases in the AAF that is used to calculate renewal funding.

²⁹ For PHAs that return to the standard funding formula, costs associated with MTW-related changes in subsidy calculations – income exclusions or deductions, alternative subsidy formulas, enhanced participant benefits and/or fund transfers to other programs – will be excluded from calculations of the PHAs actual per-unit HAP costs. This in turn will limit the “fungibility” of voucher funds.

Rapidly escalating utility costs also add to the PHAs' HAP costs, as do changes in the distribution of assisted units when, for example, large numbers of families requiring 2-, 3-, and 4-bedroom units are transferred into the voucher program from public housing. In recent years, Portland has experienced this phenomenon with an increase in families requiring larger size units. Finally, the very success of the self-sufficiency component of MTW may disproportionately increase HAP costs for PHAs that provide more program participants with the opportunity to contribute to an FSS-like escrow account. By diverting increases in the families' incomes into savings accounts, the PHA keeps the family contributions artificially low, and requires the PHA to provide a higher level of assistance than it would have otherwise. And unlike FSS under the standard funding formula, it is the PHA – not HUD – that pays.

These unexpected financial impacts of the demonstration have forced many agencies to perform continuous modeling to gauge the impacts of local conditions on the block grant structure. Most of the current agencies have cautioned any new agencies to clearly understand their current financial situation and also to accurately estimate impacts from any external or internal changes on their programs. At the time of initial agreement execution, most of the agencies focused on the flexibility and overall block grant structure. However, as can be seen after three years into the demonstration, unintended consequences can force many agencies to rethink their programs and finances even once the program is underway.

Finally, most PHAs have yet to realize the full flexibility of the block grant structure. As earlier noted, while some of the agencies have used the income generated by hard units to pay for new development, this practice has not been widespread. Other options include using Section 8 subsidies to pay for items such as relocation, mobility counseling or any other “soft” activity proposed in the MTW Plan or using capital dollars to fund a local voucher program. Subject to the unit month limitations and number of families assisted requirements in the MTW agreement, it is possible to think of developing units as voucher assisted and if it were financially attractive “convert” the unit to public housing or vice versa. Additional related internal management and procedural issues originally proposed have not been fully explored such as inspection protocols, procurement changes, mixed finance changes, integrating HOPE VI procedures, etc. Other programmatic initiatives and questions that agencies could explore include:

- How should financial models and measures change to provide information critical to operating under a block grant?
- What is the total administrative cost to lease a new voucher? (not the administrative fee received but the actual “product” cost)
- What is the agency wide cost to assist a family?
- What is the ratio of agency administrative costs to families assisted?
- How much of the income received under the block grant actually reaches or benefits the property? Or a family?
- When costs are categorized on a property basis in order to track true costs, what is the appropriate allocation of indirect and central services costs?

- If a PHA demolishes units next year, which of the MTW agreement options is most advantageous financially?

Conclusion

Although general policy conclusions on the block grant approach are difficult to make at this stage of the demonstration, it is clear that the design and implementation of the MTW program have had major impacts on the three housing authorities featured in this case study. For all of the block grant agencies, designing and implementing the program has required tremendous staff time and effort as well as underscored the necessity of staff's solid understanding of their program budget and expenditures. Implementing the block grant program requires strong leadership with far-reaching vision. Additionally, the MTW program has essentially changed the way the three housing authorities view their role as housing providers and members of the local community. In the upcoming years, tracking the organizational, resident and the financial impact of the three MTW programs will provide crucial insights into the block grant approach and its implications for potential broader applications.

Appendix B.A

Calculating Operating Subsidy

A simplified expression of the operating subsidy calculation under PFS follows:

$$\begin{aligned}
 & \text{Allowable Expense Level (AEL from prior year or \% of FHAEL)} \\
 & \quad \times \text{ 1.005 (unit aging factor referred to as the simplified delta) OR} \\
 & \quad \text{the long delta (Used only, if the PHA has experienced changes in the number of units} \\
 & \quad \text{of 5\% or 1000 units, whichever is less)} \\
 & \quad \times \text{ annual inflation factor} \\
 & + \text{ Allowable Utility Consumption Level (AUCL)} \\
 & + \text{ Costs associated with any deprogrammed units} \\
 & = \text{ Total Allowable Expenses} \\
 \\
 & - \text{ Less income generated by the PHA} \\
 & \quad \text{(Rental income adjusted for occupancy and the 50/50 split w/ HUD for increased dwelling} \\
 & \quad \text{rental income + other income)} \\
 & = \text{ Operating Subsidy before Add-ons} \\
 \\
 & + \text{ Add-ons and adjustments (Examples: FSS program, energy add-on, unit reconfiguration,} \\
 & \quad \text{non-dwelling units, long term vacancies, phase down for demolition, resident} \\
 & \quad \text{participation, independent audit costs, subsidy pro-ratio etc.)} \\
 & = \text{ Total Operating Subsidy}
 \end{aligned}$$

NOTE: the PFS and the operating budget use a per unit per month or PUM figure to express income, expenses, and subsidy. These numbers are based on the Unit Months Available (UMAs) in the Requested Budget Year (RBY).

Example 1

100 units available for 12 months RBY =	1200 UMAs
\$12,000 = cost of electricity for these 100 units	
Expressed as a PUM, cost of electricity =	\$10 PUM (\$12,000/1200)

Example 2

90 units available for 12 months =	1080
10 units available for 6 months =	<u>60</u>
Total Unit Months Available (UMAs) =	1140
\$12,000 = cost of electricity for these 100 units	
Expressed as a PUM, cost of electricity =	\$10.53 PUM (\$12,000/1140)

Appendix B.B

Components of the Operating Formula

Add-Ons. The PFS calculations permit a number of add-ons to provide funding for changes in Federal law or regulation. Such amounts cannot duplicate an amount incorporated into the AEL. The phase-down subsidy used to mitigate the impact of demolition is applied as an add-on. Add-ons include:

- FICA contributions
- Unemployment compensation
- Energy add-on for loan amortization
- Unit reconfiguration
- Non-dwelling units approved for operating subsidy
- Long-term vacant units
- \$25 PUM per occupied unit for resident participation including employee units (such as a unit used by a live in maintenance person) and police unit

Allowable Expense Level (AEL) is an approximation of the PHA's non-utility expenses. The AEL is established using certain housing stock characteristics applicable to the public housing units managed by the PHA and a local inflation factor. The regulatory intent at the time was to use the PFS formula to estimate "...the average cost of operating an average unit in a particular PHA's inventory." PFS uses various weights and a local inflation factor assigned each year to derive an expense level for the requested budget year.

Allowable Utility Consumption Level (AUCL) is the allowable utility consumption level and reflects the PHA's expected utility consumption per unit per month in the Requested Budget Year (RBY). It is equal to the average amount consumed per unit per year during the Rolling Base Period. The Rolling Base reflects utility consumption for the 36-month period that ends 12 months before the RBY. In short historical utility consumption is used to project future consumption in the RBY. PHAs are allowed to adjust rates when the appropriate utility commission has approved and published a rate change prior to the start of the RBY. Otherwise, changes in rates that occur during the RBY result in a future adjustment to operating subsidy in the form of year-end adjustments. Ultimately the rolling base "catches up" as the rate or consumption changes in the RBY become part of the base. Although the AUCL is not designed to respond to rapid spikes in utility rates or consumption, the method assures a PHA that eventually the rolling base will increase the utility portion of the operating subsidy by adjusting for any changes in future budget years.

Deprogrammed units. Deprogramming removes the unit from the PHA's inventory and the Annual Contributions Contract. Approval of a demolition application and approval of units for non-dwelling purposes (where the PHA has determined the unit will no longer be used for housing) are deprogramming actions. Operating subsidy is affected because deprogrammed units are removed from the total unit months available. PHAs can also request that vacant units be deprogrammed as part of the operating budget and PFS process. In such cases, HUD may allow costs associated with

minimum services and necessary steps to preserve and protect the units to be included in the PFS calculation as an allowable expense or addition. The amount provided can include costs necessary to close and seal the unit, security associated with preventing vandalism, and limited administrative cost essential to preserve the unit until final disposition. Such amounts may be expressed as a percentage of the full AEL or a fixed amount expressed as a PUM number.

FHA-based Expense Level (FHAEL). In an effort to better reflect true housing costs, the 2001 regulatory changes to the PFS regulations introduced a new benchmark: the FHA-based expense level or FHAEL against which the AEL is now compared is an FHA-based national average cost of operating a 2-bedroom public housing unit exclusive of utilities and property taxes. The FHAEL is adjusted for local costs differences using the R.S. Means Residential Construction Cost Index, and the bedroom distribution of the PHA. Starting in FY 2001 the FHAEL and the 2000 AEL numbers will be compared. Certain PHAs will use the FHAEL instead of the AEL.

High occupancy. HUD considers an agency to be high occupancy if either the raw or adjusted vacancy percentage is 3% or less or the raw or adjusted number of vacant units is 5 or fewer. The occupancy worksheet calculates the adjustments for permitted vacancies and any changes in occupancy to see if a PHA meets the criteria for high occupancy. An agency can be considered high occupancy even if it has significant number of “covered” vacancies.

It is important that HUD allows this flexibility because the worksheet for PFS establishes a simple relationship: the higher the income to the agency the lower the operating subsidy. Agencies with high numbers of legitimate vacancies can use a lower occupancy percentage to estimate rental income. The lower income number means the agency is not penalized in the operating subsidy calculation for legitimate vacancies.

Income consists of rental income paid by the residents, adjusted for occupancy, and other income. Rental income and the total unit months used in the subsidy calculation are also adjusted for long-term vacancies, unit vacant 12 or more months. **Other income** comes from a variety of sources: PHA investments, coin laundry machines in the buildings, public phones in the buildings, leasing of office space to third parties, and the leasing of other space such as roof top space for cell phone antennas. Other income is usually a minor factor in the PFS calculation.

The estimated **rental income** is related to the number of units expected to be occupied or vacant during the RBY. Because income is subtracted from the sum of the allowable expense and utility expense levels, the estimate of the rental income in the RBY is very critical to the amount of subsidy the agency receives. To estimate rental income, a percentage adjustment reflecting the occupancy conditions in the RBY is applied to the rent roll. Starting in FY 2001, PHAs that experience increases in rental income over a three-year period will retain 50% of the increase. The 50% retained by the PHA will not offset operating subsidy in the PFS calculations. In return the PHA must use these funds for physical and management improvements that benefit residents, self-sufficiency services, maintenance, employment and training, safety and security or optional earned income exclusions.

Long Delta. If the PHA has unit inventory changes of more than 5% or 1000 units (whichever is less) HUD requires that the agency recalculate the AEL. This is known as the long delta calculation. The long delta applies the formula weights to the new bedroom distributions. PHAs losing stock due to demolition or gaining stock due to development might be required to perform the long delta

calculations. Changes in the housing stock have significant impact on funding and must be carefully managed to keep the formula funds in “balance” with the agency’s actual budgetary requirements.

Long Term Vacancies. Agencies are penalized for Long Term Vacancies (LTVs). LTVs are units vacant 12 or more months that are not in an on schedule modernization program or vacant for reasons beyond the control of the PHA. The unit months associated with LTVs are removed from the overall subsidy calculations and the LTVs in turn receive only 20% of the AEL.

Phase-down subsidy. The phase-down subsidy used to mitigate the impact of demolition is also applied as an add-on. The phase-down starts in the 12 -month period following the point at which a unit is both approved for demolition and is vacant. During the initial period the full AEL is provided. In the second and third 12-month periods, 66% and 33% of the AEL are provided. If a unit is a Long Term Vacancy (LTV) and is now approved for demolition, HUD will provide 20% of the AEL for a 12-month period. The phase down subsidy can be terminated before the end of the three-year period if the units demolished are replaced with conventional public housing units and those units become eligible for operating subsidy or the units demolished are replaced with Section 8 Vouchers.

Pro-ration. Most years Congress does not appropriate the full operating funds needed to run the Public Housing program. When this occurs the calculation of subsidy must be reduced to allow for funds actually provided by Congress. If Congress approves operating funds at 96% of full subsidy, PHAs must reduce their subsidy requirements accordingly. Thus an agency requiring \$1,000,000 in operating subsidy reduces that amount by \$40,000 (4%) to \$960,000.

Unit Months Available (UMAs). UMAs represent the total number of units times the number of months they are available for occupancy. UMAs are another factor in determining total subsidy. Excluding UMAs reduces the total operating subsidy to the agency.

Year-end adjustments. HUD allows for end of year adjustments for the actual cost of utilities, the PHA’s annual audit and decreases in rental income.

Appendix B.C

Operating Budget and PFS Forms

PFS Forms

Operating Budget, HUD-52564

Operating Fund – Calculation of Operating Subsidy, HUD-52723

Calculation of Occupancy Percentage for a Requested Budget Year (RBY), HUD-52728

Calculation of Allowable Utility Expense Level (estimate), HUD-52722-A

Adjustment for Utility Rates and Consumption (actual), HUD 52722-B

Operating Fund Formula Data Collection, HUD-52720-A

Operating Fund Calculation of Formula and Delta, HUD 52720-B

On the following page is a summary of the contents of the operating budget and selected PFS worksheets.

Operating Budget – 52564 (3/95)	Operating Fund – Calculation of Operating Subsidy, 52723 (1/01)	Calculation of Occupancy Percentage for a Requested Budget Year (RBY) – 52728 (8/01)
Income: Rents Excess Utilities Non-dwelling rental Interest Other	Part A – Allowable Expenses & Additions (AEL + AUCL) Part B – Dwelling Rental Income (apply Occupancy % from 52728 and calculate 50/50 split) Part C – Non-dwelling income Total Expenses and Additions from Part A less total income (Parts B & C) = operating subsidy before add-ons	Part A – Actual Occupancy Percentage and units vacant for the RBY Part B – Vacancies by cause and beyond control of the PHA Part C – Status of units undergoing modernization Part D – Units estimated to be available in the RBY
Expenses: Administration Tenant Services Utilities Ordinary Maintenance Protective Services General Expenses Non-routine Expenditures Other	Part D – Add-ons for changes in Federal Law, regulation, and other eligibility Add-ons for long term vacant units, phase down for demolition, non-dwelling units, etc. Part E – Calculation of Operating Subsidy Eligibility before Adjustments Adds cost of independent audit. Total add-ons plus subsidy from Part C = subsidy before HUD adjustments	Part E – Units estimated to be occupied during the RBY Part F – Occupancy percentage during the RBY (adjusted for units available, Part D & units to be occupied, Part E) Part G – Vacancy percentage for RBY adjusted for Modernization (uses Part F data) Part H – Vacancy percentage adjusted for both mod and beyond control
HUD Contributions	Part F – Calculation of Operating Subsidy Approval for the FY (various adjustments may be applied to the	Part I – Adjustment for long term vacancies (LTVs, adjusts both the percentage of vacancy and

Operating Budget – 52564 (3/95)	Operating Fund – Calculation of Operating Subsidy, 52723 (1/01)	Calculation of Occupancy Percentage for a Requested Budget Year (RBY) – 52728 (8/01)
Line 690 → → →	<p>subsidy amount, prior year utilities, prior year unfounded eligibility, HUD discretionary, amounts unfunded due to Congressional pro-ration)</p> <p>Part F/Line 12 on this form must equal Line 690 on the Operating Budget</p>	<p>the unit months available to factor out LTVs)</p> <p>Part J – low occupancy percentage PHAs</p>
	<p>Part G – Amounts due HUD to be collected in the subject FY or future FYs.</p> <p>Part H – End of FY year adjustments for utilities</p>	

The HUD worksheet 52723 (1/01 and 5/96 versions) is the workhorse for the PFS subsidy calculations. Information on utility and non-utility expenses, the occupancy percentage, and other adjustments (add-ons, year-end utility adjustments, non-dwelling units, deprogrammed units) are all made on this form.